

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-233-E

IN RE:

Joint Application of Duke Energy
Carolinas, LLC and Duke Energy Progress,
LLC for Approval to Transfer Certain
Intercompany Assets and for Related
Accounting Authority

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**Amended Joint Application for
Authority to Transfer
Intercompany Assets and For
Approval of Accounting
Authority**

Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (together, the “Companies”) hereby jointly apply to the Public Service Commission of South Carolina (“Commission”)—pursuant to S.C. Code Ann. §§ 58-27-1300 and 58-27-2090, S.C. Code Regs. 103-823, and other applicable rules and regulations of the Commission—for approval of an intercompany transaction between DEC and DEP for rotatable fleet spare (“RFS”) components in anticipation of scheduled maintenance during a major outage. This application amends the joint application filed by the Companies on July 11, 2018 by requesting the transfer of three additional components for the upcoming planned outage at the transferee facility, as described in Paragraph 9 below.

Through the transfer, the Companies seek to coordinate and optimize the management of the Companies' respective RFS inventories and create potential maintenance outage cost savings through the transfer of RFS parts between them at fair market value. The Companies also seek approval, pursuant to S.C. Code Ann. § 58-27-1540, of the related accounting treatment. In order to account for the difference between the transfer price (i.e., market value) and cost of the RFS

assets, the Companies request authority to use Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts account 182.3 (Other Regulatory Asset) and account 254 (Other Regulatory Liability) as described herein. Finally, because the proposed transfer is in anticipation of maintenance to be performed during a major planned outage at the transferee facility in August 2018, the Companies respectfully request expedited Commission action.

The Commission has previously approved similar transfers of RFS and the associated accounting treatment as being consistent with the public interest.¹ The request for relief set forth within the Application would not involve a change to any of the Companies’ retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested accounting order would not prejudice the right of any party to address the prudence of these costs in the DEC’s or DEP’s next general rate case proceeding.

In support of this Petition, DEP and DEC respectfully show the Commission the following facts and petitions the Commission for the following relief:

Name and Address

1. The correct name and post office address of DEC are:

Duke Energy Carolinas, LLC
Post Office Box 1321
Charlotte, NC 28201

2. The correct name and post office address of DEP are:

Duke Energy Progress, LLC
Post Office Box 1551
Raleigh, NC 27602-1551

¹ Directive Authorizing Intercompany Asset Transfer, Docket No. 2018-120-E (Apr. 11, 2018); Order Authorizing Intercompany Asset Transfer, Order No. 2016-523, Docket No. 2016-252-E (Aug. 2, 2016); Direct on Joint Application of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Authority to Transfer Intercompany Assets and for Approval of Accounting Authority, Order No. 2015-630, Docket No. 2015-293-E (Aug. 26, 2015).

Notices and Communication

3. The name and addresses of the attorneys of the Companies who are authorized to receive notices and communications with respect to this petition are:

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and

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Description of the Companies

4. DEC and DEP are engaged in the generation, transmission, distribution, and sale of electric energy at retail in South Carolina and North Carolina. DEC also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the FERC.

5. The operations of DEC and DEP in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Intercompany Transfer of Assets

6. While the used and useful lives of the Companies' generating units often extend over 30 years, certain rotatable parts must be replaced substantially more often. For example, both DEC and DEP have constructed multiple combustion turbine units² in the past decade, which require certain rotatable turbine parts to be replaced approximately every three years. Some RFS components costs exceed \$1 million. The maintenance of DEC's and DEP's respective generating fleets require the companies to maintain access to rotatable spare parts for planned routine maintenance outages and potential unplanned outages. Thus, the Company must incur the cost of holding RFS in inventory or be able to access such new or refurbished parts relatively quickly to execute planned outages or respond to unplanned outages.

7. Within the industry, normal utility practice is to refurbish rotatable parts at least once, and in most cases more than once, during the rotatable part's lifetime. The rotatable part is then reinstalled on the same or another generating unit for the next usage over the useful life prior to salvage. Where a sufficient need exists, it is also normal utility practice to hold new and/or refurbished rotatable spare parts in inventory so that they are available for use by the fleet. Through recent collaboration to establish best maintenance practices, the Company has determined that DEP and DEC should continue to maintain separate RFS inventories at this time. However, if increased coordination of inventory can be achieved, the combined RFS inventory of DEC and DEP can be reduced, which results in material cost savings for DEC and DEP and their ratepayers.

8. S.C. Code Ann. § 58-27-1300 provides that an electric utility must obtain Commission approval prior to transferring or consolidating utility property with a fair market value

² DEC's and DEP's combined generation fleets include 18 combustion turbine units in the Carolinas that are designed based upon the General Electric 7FA model equipment package.

greater than \$1 million. DEC and DEP hereby apply to the Commission for permission to transfer a set of 3rd Stage Buckets from DEC's Dan River Combined Cycle Station ("Dan River") to DEP's Sherwood H. Smith, Jr. Energy Complex ("Smith") in order to optimize their respective spare parts inventories ahead of maintenance to be performed during a major planned outage at the Smith facility that is scheduled to begin on August 18, 2018 ("Smith Planned Outage"). The 3rd Stage Buckets have completed one run out of three at Dan River, and DEP plans to install the components at the Smith facility. To that end, the Companies propose an inventory-to-inventory transfer of these components at the fair market value of \$1,442,857 from DEC to DEP.³

9. DEC and DEP also apply to the Commission for permission to transfer the following components from DEC's Buck Combined Cycle Station ("Buck") to DEP's Smith facility in order to optimize their respective spare parts inventories ahead of the Smith Planned Outage: a Stage 2 Shroud, a Stage 3 Nozzle, and a Stage 3 Shroud ("Buck Components"). The opportunity to make this additional transfer was identified following a further walk-down and inspection of components. As described above, this further coordination of inventory will reduce the RFS inventory of DEC and DEP, and result in material cost savings for DEC and DEP and their ratepayers. The Buck Components have each completed one run, and DEP plans to install the components at the Smith facility. For the Buck Components, the Companies propose an inventory-to-inventory transfer at the fair market value of \$1,426,128 from DEC to DEP.⁴ The total proposed transfer from DEC to DEP in anticipation of the Smith Planned Outage, including the components from Dan River and Buck, is \$2,868,985.

³ See Exhibit A.

⁴ See Exhibit B.

10. The Companies assert that this request is in the public interest, as it would benefit the transferring utility by allowing efficient deployment of its RFS Assets without penalizing the purchasing utility by requiring the transfer of used components to occur at the materially higher net book value, which in this case is \$3,994,694. DEC would be able to transfer RFS Assets for which it has no immediate need, and DEP would be able to obtain assets it needs at a fair value. This increased coordination of inventory would result in the combined RFS inventory of DEC and DEP being reduced which would result in material costs savings for DEC and DEP and their ratepayers.

11. If DEC and DEP are allowed to evaluate the third-party purchases and the asset transfer between themselves using the comparable market value of the refurbished RFS part, this would send the purchasing utility a more appropriate price signal and would also allow DEC and DEP to optimize the use of their respective RFS inventories for the benefit of their respective customers.

12. As noted, this proposed transfer is in anticipation of maintenance to be performed during a major planned outage at the Smith facility in August 2018. For that reason, and to provide sufficient time to physically transfer the RFS components, the Companies respectfully request expedited Commission action on the proposed transaction.

Accounting Treatment

13. If transfers of used RFS Assets are made at market value, the purchasing utility and the selling utility will have to account for the difference between the transfer price (i.e., market value) and the book value of the RFS Asset. DEC and DEP propose that the difference between the transfer price and cost be accounted for by the purchasing utility using FERC Uniform System of Accounts account 254 (Other Regulatory Liability) and by the selling utility using FERC Uniform System of Accounts account 182.3 (Other Regulatory Asset). The fair market value of

these assets is lower than the book value; therefore, that is the value DEC and DEP will base their accounting treatment on, provided the Commission approves this request.

14. DEC and DEP propose to record acquired RFS assets in its plant, accumulated depreciation, and inventory accounts at net book value. DEP will also record a regulatory liability of (\$1,125,708) for the difference between the net book value recorded and the market value paid, which will be amortized to reduce the cost of service over a relatively short period of time. DEC will remove the RFS Assets from its rate base accounts at net book value, but will record the difference between those amounts and the payment received as a regulatory asset value of \$1,125,708, which will be amortized as an increase to the cost of service over a similarly short time period. This treatment will remove a disincentive for the recipient in any given case to engage in an affiliate transaction likely to be economic, and will result in a more economic use of the combined RFS assets of the two utilities. The proposed accounting and cost of service treatment is consistent with appropriate ratemaking practices. The recipient and its ratepayers will not be required to bear more than the lower of cost or market value for acquired rate base assets and the transferor and its ratepayers will not be required to pay more than the original cost less the proceeds received from the recipient.

15. Pursuant to S.C. Code Ann. § 58-27-1540, the Companies request that the Commission approve the use of FERC accounts 254 and 182.3 for the used RFS asset transfers at market value. DEC and DEP submit there are good reasons to grant this request. First, DEC and DEP are required by Section 5.7 of the Regulatory Conditions to file Annual Reports of Affiliated Transactions in South Carolina. The most recent revised Annual Report of Affiliate Transactions was filed with the Commission on May 30, 2017 in Docket No. 2011-158-E. Schedule 10 of the Annual Report contains the mutually agreed list of specific RFS assets currently eligible. Allowing this accounting treatment will not diminish the Commission's authority to review the prudence of

the transfers or the appropriateness of the pricing in future proceedings including rate-making dockets. Thus, there is no disadvantage to allowing the Companies to properly account for the at-market transfers.

16. The request does not involve a change to any DEC or DEP rate or tariff. As a result, the Companies submit that neither notice to the public nor a hearing is required.

Conclusion

WHEREFORE, for the foregoing reasons, and for good cause shown, the Companies respectfully request that the Commission issue an order allowing DEC and DEP to transfer the RFS Assets between themselves and to approve the use of Uniform System of Accounts accounts 182.3 and 254 for purposes of accounting where appropriate.

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Columbia, South Carolina
July 25, 2018

Component	Sending Location	Inventory Book Value	Depreciation, 3.49% (Life Rate = 3.17%, COR Rate = 0.32%) for FERC Acct. 343 – Dan River. (Dec. 2012-Mar 2015, 28 mos.)	Net Book Value	Intervals Used	OEM Intervals	Intervals Remaining	Fair Value (Based on GE Recommended Life)	% Difference b/w FV and NBV	DEC Regulatory Asset	DEP Regulatory Liability
S3B	Dan River	\$2,164,285	(\$176,245)	\$1,988,040	1	3	2	\$1,442,857	-27%	\$545,183	(\$545,183)

Component	Sending Location	Inventory Book Value	Depreciation, 3.69% (Life Rate = 3.36%, COR Rate = 0.33%) for FERC Acct. 343 (Nov. 2011 - Oct. 2014, 36 mos.)	Net Book Value	Intervals Used	OEM Intervals	Intervals Remaining	Fair Value (Based on GE Recommended Life)	% Difference b/w FV and NBV	DEC Regulatory Asset	DEP Regulatory Liability
Stage 2 Shroud	Buck	\$468,998	(\$51,918)	\$417,080	1	2	1	\$234,499	-44%	\$182,581	(\$182,581)
Stage 2 Nozzle	Buck	\$1,391,496	(\$154,039)	\$1,237,457	1	3	2	\$927,664	-25%	\$309,793	(\$309,793)
Stage 3 Shroud	Buck	\$395,948	(\$43,831)	\$352,117	1	3	2	\$263,965	-25%	\$88,151	(\$88,151)